Price discrimination in india and the us economics essay

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Publishers have traditionally sold textbooks at different prices in different areas of the world. For example, a textbook that sells for $70 in the United States might sell for $5 in India. Although the Indian version might be printed in cheaper paper and lack color illustrations, it provides essentially the same information. Indian customers typically cannot afford to pay the U. S. price.

Use the theories of price discrimination presented in this chapter to explain this strategy.

The definition of price discrimination is the practice of charging different prices to various groups of customers that are not based on differences in the costs of production. In another word, a type product has been produced under same condition, same content, share the same cost, but it sells in different prices to different customers at different places, which in the context is the textbooks.

Price discrimination normally happened in segmenting market that varying price elasticity or price sensitivity of demand. As in the context example, U. S. customers are segmented as inelastic market whereas India customers are elastic market. It explained that U. S. customers will purchase the textbooks even it charged in a higher price, however India customers might refuse or unaffordable to purchase the higher price textbooks.

The purpose of price discrimination is to maximize the profit that has to do with consumer surplus. Consumer surplus is the difference between the total amount of money consumers are willing to pay for a product rather than do without and the amount they actually have to pay when a single price is

charged for all units of the products. Refers to the Figure 1 below, the customer surplus is the area of P1AB.

Q

P

Q1

0

P1

Demand

A

B

Figure 1

As for the willingness to pay, the customers might not want to purchase the extra units of product where they think are not worth for it. Example, in India, there is plenty type of textbooks published by different publishers, why should the customers grab one of yours? Even your textbooks fit the customers' wants, but the selling price might be too high for the customers that they think it does not worth that much for them to pay for. It is also the example of price elasticity in India market.

Basically, there are three theoretical models of price discrimination – first degree, second degree, and third degree price discrimination. For the

context of textbooks selling in India and U. S. markets, it falls into the category of third degree price discrimination.

Third degree price discrimination is the most common form of price discrimination, where firms separate or segment the markets according to the price elasticity of demand and charge a different price for each market. Of course, the firms is charging a higher prices in the most inelastic demand market, which is U. S. and sells in a lower price in India that the market is more elastic or price sensitive in demand.

Since the U. S. market and India market has difference in elasticity and willingness to pay for the textbooks, the publisher segments the markets by charging U. S. market a higher price. Meanwhile, publisher charged a lower price in India market to increase or maximize its revenue.

0

Q1

Q2

U. S. market Quantity

India market Quantity

$

MC

MR2

MR1

D2

D1

70

5

Figure 2On the other hand, if the publisher charged a higher price in India market as in U. S. market price, the India customers may unaffordable to purchase the textbooks or they are not willing to pay that much just for a textbook, where the textbook is not worth for what they are paying. Therefore, it would be a failure in India market if the publisher sells the textbooks in a high price as in U. S. market, which is shown in the Figure 2 based on the context example.

In the Figure 2, the right side is the demand of U. S. market and on the left is the India market demand. In order to further explain why it would be a failure to charge higher price in India market, it is drawn to shows that if the publisher charge $70 abroad all the market as in U. S., there is no demand in the India market. In order to maximize the profit, the publisher has to lower the price as like marginal revenue equal to marginal cost (MC= MR2) for the India market.

However, for the U. S. market that has the demand and the willingness to pay even in a higher selling price, it is an unwise decision to lower the textbooks selling price in U. S. market as what it charged in India market for

the purpose of price standardization abroad. That is for sure the quantity in U. S. market will increase but it does not served the rules of profit maximization, where price at MC= MR1 should be charged in U. S. market that is $70.

If the publisher decides to sell this textbook online, what problems will this present for the pricing strategy? How might the publisher respond?

For the price discrimination segmented market, one problem need to be identified and managed by the firms, where the firms has to ensure or able to prevent the resale activity among the different groups of customers. Otherwise, the customers who are charged a lower price could be able to resell the product on hand to the customers who are in the higher price market segment.

Hence, if the publisher is going to sell the textbook online, it will probably have to set a single price, where it is typically the high U. S. price. It is a safe precaution step for the publisher to set in a high price that to assume the customers who order online are affordable and willing to pay even in high price. However, it would means that it will lose the India market who may not afford to pay for a high price textbooks.

On the other side, publisher might think of customization or product differentiation. For example, the publisher may amend the textbooks content such as the example in textbooks to use India currency, rupees instead of U. S. dollar. This “ India” version can be sold together with the original “ U. S.” version online with different pricing. One of the reasons is the India customers will feel more relevant to them that the example is in their

currency and it can get in a cheaper price. However, the U. S. customers who has been charged for higher price would not tends to purchase the “ India” version for a lower price as it is less relevant to their market and environment.

Another method would be using the technology. With the use of technology, the publisher may set the different price for different market, where price discrimination could be worked online. First, publisher may need the online purchaser to register an account for purchasing, where the purchaser need to fill in their particular that includes the country or location where the purchaser are stayed in. With the information gathered, the publisher can links the different groups of purchasers who come from different country or markets into different online order page and purchase with different currency. Meanwhile, the publisher can also limit the delivery of textbooks to the origin country that the purchaser registered. For example, if the purchaser is from India, the delivery will only be made to India.